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April 17, 2007

**AGENDA ITEM 3B *(Revised)***

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

**I. SUBJECT:** Senate Bill 580 (Wiggins)—As Introduced February 22, 2007

Out-of-State Health Coverage

*Sponsor: CSEA Retirees, Inc.*

**II. PROGRAM:** Legislation

**III. RECOMMENDATION:** Neutral

This bill would authorize CalPERS to contract with out-of-state public employee pension and health systems to provide health care benefits for California employees and annuitants residing out of state.

**IV. ANALYSIS:**

SB 580 would increase the authority of the CalPERS Board to contract with additional entities in other states to provide health care coverage for members. This bill would allow CalPERS to enter into a contract with another public employee pension and health system, as opposed to a "carrier," as an alternative to provide health care benefits to employees and annuitants who reside outside California.

SB 580 does not direct action by the CalPERS Board, but does provide the authority for the Board to act in this regard.

The sponsor's stated intent of this bill is, "[T]o authorize CalPERS to negotiate reciprocal health plan agreements in other states. The concept would be that state retirees who move out of state could join another state's health insurance plan and CalPERS would continue paying their regular premiums."

Staff notes that the bill is silent regarding arrangements between other state systems and CalPERS. It is reasonable to assume, however, that any other state health program approached by CalPERS for such an agreement would seek a reciprocal arrangement with the CalPERS program.

The language of the bill does not appear to preclude contracting with the federal government for its health care system outside California.

Under reciprocity agreements, the interfaces between employees or annuitants from contracted ("legacy") states or entities and the CalPERS system will be significant.

**Background**

The Public Employees' Medical and Hospital Care Act (PEMHCA) currently authorizes the CalPERS Board to provide out of state health care coverage to members. This can only be done by contracting with health benefit carriers licensed and doing business in other states.

Current law also allows CalPERS members to receive out-of-state coverage through one of the Board-approved out-of-state health benefit plans.

Until late 2002, the Board undertook limited direct contracting with specific plans in well-defined areas of New York/New Jersey, Illinois, Texas, Nevada and Arizona to provide HMO services to out of state members in those areas. The cost of providing these direct contracted out of state services proved excessive, and the Board discontinued these arrangements in January 2003.

Today, most out-of-state members enroll in one of the CalPERS self-funded plans, PERSCare and PERS Choice, which are available world-wide. In addition, the CalPERS contract with Kaiser Permanente (Kaiser), a large multi-state integrated staff-model HMO that operates facilities in multiple states, includes health benefits coverage outside of California in specific areas of Colorado, Georgia, Hawaii, Ohio, Oregon, Washington, Maryland, and Virginia. This plan is available to out-of-state employees and annuitants residing in those areas.

Kaiser offers coverage to CalPERS members in every state where it has facilities and those facilities satisfy specified requirements. By contrast, to offer coverage through other state HMOs, CalPERS would have to individually contract with the plans licensed in each state.

To standardize coverage and minimize adverse selection between health plans offered to participants, CalPERS has created a standardized health benefit design. CalPERS' members are provided coverage through contracting HMOs, CalPERS' self-funded preferred provider organizations (PPOs), and association plans limited to members of specific employee organizations.

CalPERS spends approximately $5 billion annually to purchase health benefits for 1.2 million active and retired state and local government public employees and their families in its health plans. Almost 50,000 of those covered by CalPERS health plans reside outside California, accounting for four percent of total covered lives and five percent of CalPERS' total health care costs. Of these 50,000, approximately 35,000, or 70 percent of members who live outside of California, reside in ten states. These states are (in order of highest CalPERS populations): Oregon, Arizona, Nevada, Washington, Texas, Idaho, Florida, Colorado, Utah and Missouri.

**Proposed Changes**

SB 580 would increase the CalPERS Board's authority to contract with additional entities in other states to provide health care coverage for members. This bill would allow CalPERS to enter into a contract with another public employee pension and health system, as opposed to a "carrier," as an alternative to provide health care benefits to employees and annuitants who reside outside California.

SB 580 does not direct action by the CalPERS Board, but does provide the authority for the Board to act in this regard.

**Legislative History**

2006 SB 154 (Chesbro)—Would have authorized the CalPERS Board of Administration to contract with out-of-state public employee pension and health systems to provide health care benefits to California employees and annuitants who reside outside this state.

The CalPERS Board supported SB 154, to indicate support for efforts to obtain additional out of state health coverage. The bill did not reach the Assembly Floor for vote.

*CalPERS' Position: Support*

**Issues**

1. Arguments by Those in Support

Supporters of last session's identical bill, SB 154, indicated that its provisions would allow CalPERS-covered members alternative and potentially lower-priced health benefit opportunities than those afforded under the current out-of-state offerings from CalPERS.

*Organizations in Support:* Last session's SB 154 received support from the following organizations:

CSEA Retirees, Inc. (Sponsor); California State Employees Association; Retired Public Employee's Association; Service Employees International Union, Local 1000

2. Arguments by Those in Opposition

   No arguments in opposition are on file with the author's office. The Department of Finance opposed last session's SB 154 due to potential administrative costs.

   *Organizations in Opposition:* Last session's SB 154 was opposed by the Department of Finance.

3. Retiree Impact and Cost

   Savings to the CalPERS Health Benefits Program, employees, annuitants or employers will be dependent upon negotiated contracts.

   The majority of CalPERS out-of-state members are retirees, who have a higher risk to have medical conditions. This may adversely impact the premiums of other state's retirement system programs if these retirees join those plans. Additional information is needed to quantify the impact to those health programs.

   CalPERS members will be subject to the other state system's laws and regulations, and will not be afforded the same protections available to CalPERS members in California. Potential CalPERS' cost savings must be weighed against the contracting state's health care plan and that state's laws.

4. Standardized Health Benefits Design

   CalPERS offers a standard comprehensive health benefit design through all of its contracting health plans, including a separate Medicare-coordinated plan for those eligible. Contracts with out-of-state retirement systems would have to be done state by state, which will result in different benefit designs for out-of-state CalPERS members.

5. Loss of Medicare Part D Retiree Drug Subsidy (RDS)

   CalPERS receives the RDS for Medicare-eligible members not enrolled in a Managed Care Pharmacy Drug Program (MAPD). CalPERS can currently receive this subsidy for over 22,000 out-of-state members based on health claims experience from the CalPERS health plans. Out-of-state members who participate in other states' health care coverage plans would no longer be included in the CalPERS RDS claims submission.

6. Rural Health Care Equity Program (RHCEP) Benefit

   The Department of Personnel Administration administers the Rural Health Care Equity Program (RHCEP), providing limited reimbursement of specified health care expenses for State employees and annuitants in California, and State active employees outside of California, who do not have access to a CalPERS Board-approved HMO. Active members who enroll in an out-of-state HMO would be ineligible for the RHCEP.

7. Implementation Issues:

   There are also significant implementation considerations:

   - Differing state laws regarding health care will impact disparate elements of plan administration including benefit design and member appeal rights.
   - Other state systems may not be able to accept CalPERS members until their state laws are changed.
   - Appeal jurisdiction will be conflicted. The California Department of Managed Health Care and the California Department of Insurance, who license and regulate health care plans and health insurers, will not have jurisdiction over out-of-state health plans or insurers practicing in their own state. Although CalPERS will have limited ability to intervene if a dispute arises between a CalPERS member and another state's health plan, CalPERS members will expect assistance from the system. This will significantly increase administrative workload for the CalPERS Health Branch.
   - Reciprocal health plan agreements with other states would require amendments to PEMHCA eligibility to include non-PEMHCA individuals
   - Other state individuals may cause adverse selection on CalPERS plans if employees or annuitants with high medical needs seek to join CalPERS.

8. Legislative Policy Standards

   CalPERS' Legislative Policy Standards suggest a neutral position for proposals which: (1) have conflicting policy implications; (2) add benefits or coverages which are already included in the PEMHCA standardized health benefit package or are not detrimental to the program. This bill meets these criteria.

## V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

## VI. RESULTS/COSTS:

This bill would allow CalPERS to enter into agreements with other state public employee pension and health systems to provide health care coverage for CalPERS members residing outside of California.

**Program Cost**

The actual program costs will be dependent upon the number of out-of-state contracts CalPERS enters into, the specific contracts CalPERS negotiates with other state systems, and the number of members impacted by these contracts.

It is unknown at this time how program costs will be determined and allocated. This will depend on agreements made, and the number of employees or annuitants from legacy states entering the CalPERS program. Additional information is needed to quantify any increase in CalPERS health premiums.

**Administrative Costs**

Administrative costs for CalPERS will depend on the number of out-of-state pension and health systems available and willing to contract with CalPERS; the number of contracts entered into; the terms and conditions of such contracts; and, the level of difficulty and time spent identifying interested partners and negotiating an agreement that the Board deems "necessary or desirable."

Without additional detail, we cannot specifically quantify personnel and budget impacts at this time. However, the following areas will be impacted:

One-Time Efforts

Substantial costs are projected for a one-time feasibility evaluation, initial contracting and implementation efforts and ongoing staffing needs.

Ongoing Efforts

*Health Plan Administration*

The Office of Health Plan Administration (OHPA) will require augmentation to support contract negotiation, oversight, and deliverable tracking and evaluation for multiple single-state contracts.

*Administration of Appeals*

The Office of Employer and Member Health Services (EMHS) anticipates a significant increase in the complexity and sensitivity of appeal administration bridging multiple single-state contracts.

*Health Benefits Enrollment and Billing Systems:*

EMHS projects significant costs to update and maintain all Health Benefits enrollment and billing systems to accommodate this new program. However, we have no ability to assess these impacts without the detailed contracts and requirements that would have to be included to support multiple state interfaces for member enrollment and billing processes.

The system will have to capture and bill the specific employer, and involve substantial effort to ensure that payment is made by the “legacy” state. Should the legacy state not fund the complete premium for its employees or annuitants, substantial workload will be incurred to obtain the residual premium payment for the services. This will be similar to the current Complementary Annuitant Premium Program, but without the benefit of deductions coming from the CalPERS retirement fund.

*Management Information Systems Support*

The Office of Health Policy and Program Support Services (OHPPS) will require augmentation to support system change and ongoing programming activity to ensure external state systems interface appropriately with CalPERS systems.

*Enterprise System Support and Implementation*

The CalPERS COMET – Pension System Resumption (PSR) Project has begun the Initiation and Planning Phase to replace CalPERS’ aging legacy systems. The solution to be delivered will provide the foundation for CalPERS’ vision of a technology infrastructure that provides the flexibility, expandability, and scalability required to grow the business in the coming decades. When complete, pension and health contracts, enrollment, contributions, and benefit payment information will be housed in a single location. This new approach has triggered significant changes in organizational structure, and will impose significant resource requirements on CalPERS business, technical, and support organizations through Final Acceptance Testing, currently projected for September 2009.

Until completion of the PSR Project, changes to the system in transition will be made only for purposes of business continuity. CalPERS will be better positioned for future business expansion once the enterprise has achieved its goal of replacing its aging technology infrastructure, and has successfully made the transition to becoming a virtual pension system that utilizes the Internet as a primary channel for conducting business transactions. As such, this legislation may be premature or should, at a minimum, contain an operational date not earlier than January 1, 2011.

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